

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 SP-02 AID-05

EB-07 NSC-05 CIEP-02 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 DODE-00 PA-02 PRS-01 L-03 H-02 AGRE-00

ITC-01 FEAE-00 IGA-02 SSO-00 NSCE-00 INRE-00 USIE-00

/121 W

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O R 271813Z OCT 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 6979

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

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DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD OCT. 21 - 27

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SUMMARY: STERLING'S DECLINE TO THE DOLLARS 1.57 - 1.60 RANGE CREATED FURTHER COMPLICATIONS FOR HMG AS IT PREPARED FOR MEETINGS WITH THE IMF ON ITS 3.9 BILLION DOLLAR LOAN APPLICATION. A SMALL REDUCTION IN UNEMPLOYMENT WAS THE SOLE UPBEAT ECONOMIC INDICATOR. AVERAGE EARNINGS ROSE AT A RATE WELL IN EXCESS OF THE GOVERNMENT TARGET. REAL CONSUMER EXPENDITURE RECOVERED ITS SECOND QUARTER LOSS BUT STILL REMAINED SLIGHTLY BELOW THE FIRST QUARTER LEVEL. NO ENCOURAGEMENT FOR AN EARLY RESUMPTION OF SLOWER RETAIL PRICE INCREASES WAS CONTAINED IN THE LATEST QUARTERLY REPORT OF THE PRICE COMMISSION. END SUMMARY.

L. STERLING TRADED NERVOUSLY BUT MAINTAINED A LEVEL JUST UNDER 1.65 DURING THE WEEK ENDED OCTOBER 22. ON MONDAY, OCTOBER 25, HOWEVER, THE POUND CLOSED AT 1.5950, DOWN 5.25 CENTS FROM FRIDAY'S CLOSING RATE. ONE OF THE MOST DRAMATIC FALLS IN RECENT U.K. EXPERIENCE. THIS FALL HAS BEEN ALMOST UNIVERSALLY ATTRIBUTED TO AN ARTICLE IN THE SUNDAY TIMES WHICH ALLEGED THAT THE IMF STAFF WITH U.S. TREASURY SUPPORT INTENDED TO RECOMMEND A \$1.50 TARGET EXCHANGE RATE FOR THE POUND. DENIALS BY THE HIGHEST FINANCIAL OFFICIALS OF BOTH THE U.S. AND THE U.K. COULD NOT REVERSE THE FALL. TRADING HAS BEEN EXTREMELY NERVOUS, AND THE EXCHANGE RATE ERRATIC SINCE MONDAY. WITH EXTREMELY LARGE BID-OFFER SPREADS.

2. INTEREST RATES CONTINUED TO RISE. STERLING CERTIFICATES OF DEPOSITS ROSE FROM 1/4 TO 1/2 PERCENT. LLOYDS AND NATIONAL WESTMINSTER INCREASED THEIR BASE LENDING RATE TO 14 PERCENT, THUS MOVING IN LINE WITH BARCLAYS AND MIDLAND. GILT PRICES FELL OVER THE WEEK AS WELL.

3. THE POUND'S SHARP FALL HAS LED PRIME MINISTER CALLAGHAN. IN A BBC INTERVIEW AND IN AN EXCHANGE IN THE HOUSE COMMONS, TO ASSERT THE NECESSITY OF REFUNDING OUTSTANDING STERLING BALANCES. THE PRIME MINISTER COUPLED THIS POLICY WITH BRITAIN'S POLICIES TOWARD EUROPEAN SECURITY. HE STATED IN THE BBC INTERVIEW "IF WE ARE PUSHED BECAUSE THERE IS A SHORT TERM PROBLEM INTO A POSITION WHERE WE UNCLASSIFIED

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WOULD HAVE TO MAKE A CHOICE AS TO WHETHER TO CARRY ON THESE RESPONSIBILITIES OR WHETHER WE HAVE TO SAY, 'SORRY OUR ECONOMIC SITUATION DEMANDS THAT WE PUT OUR OWN POSITION FIRST.' THIS WOULD BE A VERY SERIOUS MATTER FOR EUROPE."

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 USIE-00

AID-05 CIAE-00 COME-00 EB-07 FRB-01 INR-07 NSAE-00

XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01

SSO-00 NSCE-00 INRE-00 NSC-05 SS-15 STR-04 CEA-01

DODE-00 PA-02 PRS-01 L-03 H-02 AGRE-00 ITC-01 FEAE-00

IGA-02 /121 W

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O R 271813Z OCT 76 ZFF-4

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 6980

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL BELFAST

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4. UNEMPLOYMENT. UNEMPLOYMENT DECLINED IN OCTOBER. FOR THE FIRST TIME SINCE MARCH THE TOTAL NUMBER OF UNEMPLOYED DECLINED, BOTH ON A CRUDE BASIS AS WELL AS SEASONALLY ADJUSTED AND EXCLUDING SCHOOL LEAVERS. THE OVERALL JOB-
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LESS TOTAL DECLINED BY 13,100 (S.A.) IN OCTOBER TO 1.3062 (5.5 PERCENT) WHILE THERE WAS A DECLINE OF 79.300 IN THE UNADJUSTED FIGURES 1.3771 MILLION (5.8 PERCENT). FOR FURTHER DETAILS SEE SEPTTEL.

5. WAGES AND EARNINGS. BASIC HOURLY WAGES SHOWED LITTLE INCREASE IN SEPTEMBER WHILE AVERAGE EARNINGS ROSE SIGNIFICANTLY IN AUGUST. THE INDEX OF BASIC HOURLY WAGES (JULY 31, 1970 EQUALS 100) STOOD AT 218.7 IN SEPTEMBER. VIRTUALLY UNCHANGED FROM THE AUGUST FIGURES OF 218.6. IN THE 12 MONTHS ENDING IN SEPTEMBER, BASIC WAGES INCREASED BY 17.6 PERCENT. HOWEVER, SINCE JANUARY A DOWNWARD TREND HAS BEEN CONVINCINGLY ESTABLISHED. BETWEEN EACH OF THE FIRST THREE QUARTERS OF 1976 THE INDEX ROSE BY A SMALLER AMOUNT. THE RESPECTIVE PERCENTAGE INCREASES ARE:

1976 - 1	6.0
1976 - 2	3.6
1976 - 3	2.7

THIS TREND SHOULD CONTINUE AS THE SECOND STAGE OF INCOMES POLICY BEGINS TO AFFECT LARGER NUMBERS OF WORKERS. AVERAGE EARNINGS ARE NOT BEHAVING AS ANTICIPATED. THE LATEST FIGURES INDICATE THAT THE INDEX OF AVERAGE EARNINGS (JANUARY 1970 EQUALS 100) ROSE BY 14.4 PERCENT IN AUGUST TO 267.7 FROM THE JULY FIGURE OF 263.5. OVER THE LATEST TWO MONTHS THE INDEX HAS RISEN BY 3.6 PERCENT A PACE WHICH, IF CONTINUED, WOULD PUSH AVERAGE EARNINGS FAR ABOVE THE 7-8 INCREASE PROJECTED FOR THE 12 MONTHS THROUGH JULY 1977 WHEN THE CURRENT INCOMES POLICY EXPIRES. THE INDEX CURRENTLY STANDS 14.4 PERCENT ABOVE ITS LEVEL OF AUGUST 1975. SOME OF THE RECENT INCREASE HAS BEEN ATTRIBUTED TO INCREASED OVERTIME WORKING (UP 1.1 PERCENT OVER AUGUST 1975) AND JOB REGRADING DONE TO GET AROUND THE COMPRESSION IN WAGE DIFFERENTIALS IMPOSED BY THE PAY POLICY.

6. CONSUMER EXPENDITURE. THE INITIAL PROVISIONAL ESTIMATE OF REAL CONSUMER SPENDING DURING THE THIRD QUARTER INDICATES THAT MOST OF THE SECOND QUARTER DECLINE HAS BEEN RECOUPED. CONSUMER EXPENDITURE, EXPRESSED IN 1970 PRICES, WAS ESTIMATED AT 8.860 BILLION POUNDS DURING THE THIRD QUARTER. A RISE OF 71 MILLION POUNDS (0.8 PERCENT) FROM THE SECOND QUARTER FIGURE OF 8.789 BILLION. DESPITE

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THIS INCREASE. CONSUMER SPENDING HAS REMAINED FLAT BETWEEN THE SIX MONTHS THROUGH SEPTEMBER AND THE PREVIOUS

SIX.MONTH OERIOD. OVER A SOMEWHAT LONGER PERIOD, A COM-
PARISON OF CONSUMER EXPENDITURE FOR THE FOUR QUARTERS
ENDING IN 1976 - 3 WITH THE PREVIOUS FOUR QUARTERS SHOWS
A DECLINE OF 1.1 PERCENT CONSUMER BEHAVIOR HAS BEEN RE-
FLECTING THE SQUEEZE ON REAL INCOMES THAT HAS COME ABOUT
AS A RESULT OF WAGE RESTRAINT AND RISING UNEMPLOYMENT
THIS PATTERN IS LIKELY TO PERSIST IN THE COMING MONTHS
ALTHOUGH ONE SHOT FACTORS SUCH AS THE TAX REBATE IN THE
THIRD QUARTER MAY PRODUCE SOME TEMPORARY VARIANCE FROM
THE UNDERLYING TREND.

7. PRICE COMMISSION REPORT IN ITS LATEST QUARTERLY RE.
PORT COVERING THE THREE MONTHS THROUGH AUGUST, THE PRICE
COMMISSION EXPRESSED THE VIEW THAT PROSPECTS FOR FURTHER
REDUCTIONS IN THE RATE OF PRICE INCREASE WERE "NOT EN-
COURAGING" THE TREND TOWARD EASING IN THE RATE OF
PRICE INCREASES HAD BEEN REVERSED OVER THE PERIOD COVER-
ED BY THE REPORT. THE COMMISSION'S INDEX OF PLANNED
PRICE INCREASES REPORTED BY FIRMS ROSE BY 3.7 PERCENT
COMPARED WITH 2.3 PERCENT DURING THE PREVIOUS QUARTER
THE COMMISSION STATED THAT INFLATION WOULD REMAIN STUCK
AT PRESENT LEVELS UNTIL THE FULL EFFECTS OF THE CURRENT
INCOMES POLICY BECAME MANIFEST IN 1977. IN CONTROLLING
PRICE INCREASES. THE COMMISSION USES 1973 PROFIT MARGINS
AS A REFERENCE. IN ITS LATEST REPORT. IT OBSERVES THAT
PROFIT MARGINS HAVE IMPROVED FOR BOTH CATEGORY 1 FIRMS
(THE LARGEST MANUFACTURING AND SERVICE COMPANIES) AND
CATEGORY 2 FIRMS (THOSE OF THE SECOND RANK). IN THE CASE
OF THE FORMER MARGINS INCREASED FROM 55 PERCENT OF THE
BASE LEVEL DURING THE FIRST QUARTER OF 1976 TO 61 5 PER-
CENT DURING THE LATEST 3 MONTHS. FOR CATEGORY 2 FIRMS

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INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 AID-05

CIAE-00 COME-00 EB-07 FRB-01 INR-07 NSAE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 SSO-00

NSCE-00 INRE-00 NSC-05 SS-15 STR-04 CEA-01 DODE-00

PA-02 PRS-01 L-03 H-02 AGRE-00 ITC-01 FEA-01 IGA-02

/122 W

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O R 271813Z OCT 76 ZFF-4
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 6981
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
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MARGINS INCREASED FROM 52.6 PERCENT TO 57.6 PERCENT. IN
THE CASE OF CATEGORY 1 FIRMS, PROFIT MARGINS WERE HIGHER
THAN AT ANY TIME IN THE LAST TWO YEARS.

8. EXCHANGE RATE AND GOLD

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	EFFECTIVE		
	EXCHANGE	DEPRECIATION	GOLD
DATE	(RATE \$)	(PERCENT)	(\$)
10/20	1 6470	45.5	115-1/8
10/21	1.6472	45.4	116-1/8
10/22	1.6475	45 3	115-7/8
10/25	1 5950	47.6	116-1/8
10/26	1.5850	47 1	117.5/8

CHANGE 10/19 - 10/26 DN 0.0635 WIDN. 1.6 UP 2-1/2

9. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
10/10	2.28	6.03	10.14
10/21	2.12	5.67	9 91
10/22	1 87	5 42	9 68

10/25	2 35	6.05	10.35
10/26	2 17	5.88	10 20

CHANGE 10/19-10/26 NAR. 0 11 WIDN 0 11 WIDN. 0.05
(ALL FIGURES IN CENTS)

10 EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
L0/20	4-7/8	5-3/8	5-1/2
L0/21	5-1/4	5-3/8	5-3/4
10/22	5-1/4	5-3/8	5-7/8
10/25	5-1/8	5.1/2	5-7/8
10/26	5-1/8	5-1/2	5.7/8

CHANGE 10/19-10/26 UP 1/8 UP 1/8 UP 1/8

11. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST
RATE DIFFERENTIAL

DATE	
10/20	9-21/32
10/21	9-5/8
\$ 10/22	9-1/2
10/25	9-23/32
10/26	10

CHANGE 10/19-10/26 WIDENED 15/32

12. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
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L0/20	15	15	14-25/32
10/21	15	15	L4 25/32
10/22	14-59/64	14-59/64	14-11/16
10/25	15-3/32	15-3/32	14-15/16
10/26	15-1/4	15-9/32	15-3/16

CHANGE 10/19-10/26 UP 5/16 UP 11/32 UP 17/32

13. THE MINIMUM LENDING RATE REMAINED AT 15 PERCENT, UN-
CHANGED SINCE OCTOBER 7, 1976. THE TREASURY BILL RATE
ROSE BY .1344 PERCENT TO 14 5166 PERCENT AT OCTOBER 22'S
TENDER. THEREBY MAINTAINING CONSISTENCY WITH A 15 PERCENT
MINIMUM LENDING RATE. FIVE HUNDRED MILLION POUNDS OF
BILLS WERE TENDERED AND ALLOTTED, ATTRACTING BIDS OF
1080 MILLION POUNDS. NEXT WEEK 400 MILLION POUNDS WILL BE
TENDERED, TO REPLACE 600 MILLION POUNDS MATURING.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DATA, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 OCT 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON17208
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760401-0428
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761014/aaaaalqu.tel
Line Count: 380
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: buchant0
Review Comment: n/a
Review Content Flags:
Review Date: 18 AUG 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <18 AUG 2004 by cookms>; APPROVED <23 DEC 2004 by buchant0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD OCT. 21 - 27 UNCLASSIFIED UNCLASSIFIED
TAGS: ECON, UK
To: TRSY
STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006